In the same period, the private saving rate recorded a marked decline, largely concentrated in the households sector, reaching its lowest level since the end of the Great Depression. Now, as inequality rose, the share of consumption relative to disposable income should have become smaller. This, however, has not been the case: the rise in households' saving rate that would have been brought about by the concentration of total income on the upper 10 per cent of the income distribution was more than compensated by the fall in the saving rates of the remaining 90 per cent, owing largely to increased access to household debt.

This seems to suggest that, through household debt, low wages can coexist with high levels of aggregate demand, with no need for State intervention, providing in this way a solution to the fundamental contradiction between the necessity of high and rising levels of consumption and a framework of antagonistic conditions of income distribution. Things, however, are not so simple, as the global financial crisis has made clear. In fact, the question of the long-run sustainability of substituting loans for wages must be considered. As for public debt, also for private debt the crucial factor is the difference between the rate of interest (i) and the rate of growth of income (g). If $i > g$, the debt/income ratio keeps on rising. The point here is that, while the growth of public debt, supporting g, favours the reduction of the ratio between public debt and GDP, the growth of private debt does not reverberate on the income and therefore on solvency of all indebted workers. For the latter, the share of income required over a period of time to repay their debt can very easily become unsustainable also because the interest they have to pay, especially if they have a poor credit rating, is significantly higher than that of the government.

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See also

Aggregate demand; Debt-led boom; Financial crises; Financial liberalization; Income distribution

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Debt – non-financial corporate sector

A distinct feature of post-Keynesian theory is its focus on interrelated balance sheets among its various member units – firms, households, governments, and even countries (see Minsky, 1975). In this perspective, non-financial corporations (NFCs) play an extremely important role connecting the credit cycle to the economic cycle. This view is built upon two arguments developed by Keynes (1936). First, investment is the driving force causing fluctuations in the level of output and employment. Second, as argued by Minsky (1975), finance holds the key to the investment process, as it sanctions NFCs' decisions to produce in a hierarchical relation that is crucial to the notion of an entrepreneurial economy. NFCs' debt is, therefore, at the heart of the financial instability hypothesis, which describes the impact of debt and its validation through the behaviour of a complex and interconnected system of assets and liabilities (Minsky, 1982; see also authors in the monetary circuit tradition, for instance, Rochon, 2006).

In investment decisions, both NFCs and the financial system speculate about firms' future cash-flow performance, which is ultimately the source of debt repayment, as well as their ability to refinance debts. Capital assets are not acquired on the basis of their physical productivity, which may be previously known, but according to the expected profitability during the production process. This speculative dimension of the acquisition of capital assets is significantly expanded by the fact that it has to be financed.

Expectations of profits determine both the flow of debt and the price of existing debt. Now, expectations of profits, which will determine future investments, depend upon realized profits, which are determined by past investments. Thus, besides providing the funds to fulfil payment commitments as they come due and helping to determine investment and financing conditions, the flow of debt to NFCs signals whether past

investment decisions have succeeded. Post-Keynesian economists point out that every asset has a carrying cost and, therefore, there must be a degree of compatibility between the asset return and the cost of liabilities, as well as between cash-flow generation periods and debt payment commitments (Minsky, 1992).

For that matter, Minsky (1986) focuses his analysis on detailing and characterizing the nature of NFCs' debt, which will configure certain financial structures. The first one is 'hedge finance' and describes a portfolio whose expected cash flows offset all financial commitments, with no term and quantity mismatch between assets and liabilities. The speculative financial structure occurs when debt service is greater than expected cash flows for a determined period, even though the present value of the expected returns over the entire productive period is still greater than the present value of the payment commitments. Finally, when cash flow is insufficient to meet the debt service in all periods and the NFC has to capitalize interest on its liabilities by increasing it, there is a Ponzi financial structure. Though, agents engaged in Ponzi finance estimate that the present value of their net proceeds will be, over the long run, higher than their payment commitments.

However, the judgment of acceptable debt structures is based on subjective calculations by individuals, and a drop in the relationship between return on investment and financial commitments can lead to rapid generalized revaluations by the financial market at any time. In Minsky's (1986, p. 232) own words, '[a]lthough periods of Ponzi finance may be part of the normal cyclical experience of firms, being forced into Ponzi-financing arrangements by income shortfalls or interest costs escalation is a systemic part of the process that leads to widespread bankruptcy.'

Therefore, in a system where expectations can be frustrated and uncertainty is always present, the NFCs' debt movement follows the fluctuations in agents' liquidity preference. Changes in the perception of risk by borrowers and creditors are the fuel for the cyclical dynamics of capitalist economies.

FERNANDA ULTREMARE

See also

Debt-led boom; Financial crises; Financial instability hypothesis; Income distribution; Monetary circuit – Italian school

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Debt – public

Public debt is always conceived by policy makers as a twenty-first century wraith, often depicted as the worst deadly danger for the stability of a capitalist economy. Such a conventional vision of public debt relies on a set of specific postulates, namely:

(1) In any accounting period, the new issuance of public debt is equal to the excess of aggregate State expenditures over tax receipts. It is thereby equal to the State deficit.
(2) Since the so-called deficit is a share of State expenditures, it means that the State would only spend its already existing tax receipts.
(3) Excess spending is to be financed by selling debt titles to financial markets, thereby to private international banking institutions that determine the rate of interest to be paid by the State.
(4) The central bank must not acquire directly State liabilities as long as it is not absolutely independent from the State.
(5) Public debt is always assumed to finance excess non-productive State expenditures, thereby jeopardizing the long-run stability of a capitalist economy.
(6) A logical corollary is that long-run stability only depends on the growth of public debt and never on the growth of private debt.

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